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"News Flash"

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FULL VESSELS, HISTORICAL RATE LEVELS, SURCHARGES, AND EQUIPMENT SHORTAGES ALL HIGHLIGHT THE NEW SHIPPING SEASON FOR THE TRANSPACIFIC EASTBOUND TRADE

Vessels out of China and surrounding S.E. Asia and India Subcontinent origins have been fully booked since April and continue to record 99% to 100% utilization. May vessels are already overbooked and bookings just this week are for vessel departures well into June. This pattern is likely to be maintained for quite some time, especially as the traditional peak season is not too far away. The increase in the number of void sailings for the past several weeks; the impact of the Ever Given that blocked the Suez Canal, causing significant delays and schedule setbacks to hundreds of vessels; equipment shortages on a global basis; the high demand for space; and new outbreaks of COVID-19 in countries like India, are causing serious concerns as to the stability of the market and extreme volatility in rates and shipping patterns. Rolling is already taking place as well as booking rejections by the carriers and in some cases inability to provide equipment for intended vessel departures.

Premium/Equipment Surcharges are at record levels out of China, S.E. Asia and the ISC region ports. As the Transpacific Eastbound Carrier Contract negotiations have concluded, and have been implemented in most cases as of May 1st, the historical contracted base rate levels are just a part of the high costs expected to support this space dominant season. Where we saw the practice of premium and equipment surcharges begin to have impact in Q4 of 2021 and more seriously leading up to Chinese New Year in Q1 of 2022, the rates for these premium charges, added on by carriers to secure space and equipment, have nearly quadrupled from past levels in just last couple of weeks and still increasing each week from various origins as bookings continue to rise well above available capacity. There are several levels being advised by carriers that are even higher than the ocean freight rate itself.

Cancellation Fees are again at focus as carriers look to avoid practices of booking with multiple carriers, overprotecting space early and even taking days to shop around for the best rate. For the steamship line carriers, these scenarios often result in no-shows or last-minute cancelled container bookings. The cancellation fees currently vary by carrier, but are gaining popularity as a leverage point for making a confirmed booking. This will force shippers to make immediate decisions as to the bookings they make and now with consequences should they try to back out. Waiting too long to decide will often result in forfeiture of space.

Where many analysts had predicted the volumes to remain strong through Q2, before revising to Q3 as to a possible letup in the market, there is now greater support and belief that we will face many obstacles through Q4. With Chinese New Year starting February 1, 2022, any momentum could even carry over into early Q1of 2022. This is currently validated by a strong economy, very little "new" vessel capacity coming into the trade, and the production of new empty container equipment is just not keeping up with the demand. Conversations that include continued belief of a drop off in volume typically have a correlation to the state of the economy in the coming months. Inflation is an example that is often being cited, as well as other events that could lead to a change in the behavior of consumer spending.

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The ports of Los Angeles and Long Beach continue to experience the ongoing congestion with an average of just over 20 vessels anchored in San Pedro Bay the past few weeks. Vessels are still experiencing 7 to 14 days of sitting anchored, with then another potential 5 days of dwell time upon berthing at their respective terminals waiting to be unloaded. Chassis and truck power remain unpredictable while demurrage and detention continue to play a factor in overall costs. For those that have followed our reporting the past few months, the higher averages of above 30 vessels anchored per week and a peak of 40 vessels, have witnessed the downturn. However, the recent weeks of reductions in anchored vessel were manipulated and controlled by several carriers using void sailings to skip scheduled and published origins with strings to Los Angeles and Long Beach ports. Others have reduced exposure by focusing on other US and Canada West coast ports to discharge containers, in particular the Intermodal moves that have inland destinations. Even at the reduced 21 vessels anchored as of Tuesday, there are far too many vessels just idling and the delays are still significant and continue to be overwhelming for the terminals. A return to normal schedules or future surges could see the average raise back into the 30's very easily.

Rail movement inland from both East and West coasts continue to experience volatility and are causing a high level of delay. Port terminals remain congested and rail car shortages have created major delays in containers getting loaded to rail. The delays are further compounded at the destination rail ramps, where chassis shortages and truck power are contributing to rising congestion limiting space and slower train unloading. Delays from West Coast Ports like Los Angeles/Long Beach, Seattle/Tacoma and Vancouver, Canada, can at times increase the rail transits by 7 to 14 days. Peak surges have already caused containers to be delayed as much as 30 days moving on the rail.

Export delays and cancellations continue as empty containers are being prioritized over full containers while the steamship lines prioritize repositioning the empty equipment back to origins. Together with vessel delays of inbound containers, rail ramp and terminal congestion, chassis shortages, lack of truck power and an increase in booking rejections by the steamship lines, the outbound ocean freight mode has become very unstable and unreliable. This is now a pattern that has become more relevant each month since last October. There are continued warnings of cancellations and postponements by the carriers until the imbalance in equipment improves.

As usual, we must continue to advise that there is still a great deal of uncertainty ahead and major challenges to endure, some that are unforeseen at this time and which has been proven between each of our News Flashes and guidance to our clients. We do highly recommend that you continuously review your supply chain and keep preparing for continued disruptions, volatility in costs, increased congestion, and long delays. Please continue to book your shipments weeks in advance as we have guided. Providing forecasts of your shipments is ideal. Due to volatility around the globe, this advice can be applied to all modes at this time. Please do your best to plan well in advance and communicate with all parties involved in your transactions. Do not hesitate to contact us should you have questions or need further guidance.